

TABLE A.—DISTRICT ONE—Continued

	Area 1 St. Lawrence River	Area 2 Lake Ontario	Total District One
Step 5, Determination of target return on investment	7.04%	7.04%	7.04%
	3,520	3,520	7,040
Step 6, Adjustment determination	1,148,503	596,048	1,744,551
Step 7, Adjustment of pilotage rates (Rate Multiplier)	1.04 (+4%)	.95 (–5%)	1.01 (+1%)

TABLE B.—DISTRICT TWO

	Area 4 Lake Erie	Area 5 Southeast Shoal to Port Huron, MI	Total District Two
Step 1, Projection of operating expenses	\$365,292	\$446,468	\$811,760
Step 2, Projection of target pilot compensation	477,218	930,701	1,407,919
Step 3, Projection of revenue	705,015	1,461,069	2,166,084
Step 4, Calculation of investment base	89,734	140,353	230,087
Step 5, Determination of target return on investment	7.04%	7.04%	7.04%
	6,317	9,881	16,198
Step 6, Adjustment determination	854,237	1,392,460	2,246,697
Step 7, Adjustment of pilotage rates	1.21 (+21)	.95 (–5%)	1.04 (+4%)

TABLE C.—DISTRICT THREE

	Area 6 Lakes Huron and Michigan	Area 7 St. Mary's River	Area 8 Lake Superior	Total District Three
Step 1, Projection of operating expenses	\$739,550	\$292,739	\$508,441	\$1,540,730
Step 2, Projection of target pilot compensation	1,099,676	625,315	715,827	2,440,818
Step 3, Projection of revenue	1,540,306	1,119,819	1,030,693	3,690,818
Step 4, Calculation of investment base	111,668	83,752	83,752	279,172
Step 5, Determination of target return on investment	7.04%	7.04%	7.04%	7.04%
	7,861	5,896	5,896	19,654
Step 6, Adjustment determination	1,847,087	923,950	1,230,164	4,001,201
Step 7, Adjustment of pilotage rate	1.20 (+20%)	.83 (–17%)	1.19 (+19%)	1.08 (+8%)

Part 2: Calculating the Rate Multiplier

The authority to establish pilotage rates on the Great Lakes derives from 46 U.S.C. 9303(f), which states, in pertinent part, that: “[t]he Secretary shall prescribe by regulation rates and charges for pilotage services, giving consideration to the public interest and the costs of providing the services.” The pilotage regulations provide, at 46 CFR 404.1(b), that the pilotage rates “shall be reviewed annually in accordance with the procedures detailed in Appendix C” of the regulations and, “the Director shall complete a thorough audit of pilot association expenses and establish pilotage rates in accordance with the procedures detailed in § 404.10 of this part at least once every five years.”

Appendix C to part 404 of title 46, CFR, provides the methodology used by the pilotage office in connection with annual reviews. The actual ratemaking methodology is contained in appendix A to part 404 of title 46, CFR, and is comprised of seven (7) steps. Those steps are:

- (1) Projection of Operating Expenses;
- (2) Projection of Target Pilot Compensation;
- (3) Projection of Revenue;
- (4) Calculation of Investment Base;
- (5) Determination of Target Return on Investment;
- (6) Adjustment Determination (Revenue Needed); and,
- (7) Adjustment of the Rates.

The financial data used to calculate each of the seven steps comes from an independent accountant's review of the books and records of each association, which is provided the Coast Guard on an annual basis, and other documents and records provided to the Coast Guard by the pilotage associations. All documents and records relied upon in this ratemaking have been made part of the public record and may be found in the docket for this rulemaking.

The methodology is used to develop a multiplier to be used to adjust pilotage rates in each pilotage area. The following is an explanation of each step

of the methodology and how the rate multiplier is derived.

Step 1: Projection of Operating Expenses

(1) The Coast Guard projects the amount of vessel traffic annually. Based upon that projection, the Coast Guard forecasts the amount of fair and reasonable operating expenses that pilotage rates should recover. This consists of the following phases:

- (a) Submission of financial information from each association;
- (b) Determination of recognizable expenses;
- (c) Adjustment for inflation or deflation; and
- (d) Final projection of operating expenses.

Step 1.A. Submission of Financial Information

(1) Each Association is responsible for providing detailed financial information to the Coast Guard, in accordance with part 403 of title 46, CFR. The information is collected and reviewed